INTERNAL REVENUE SERVICE

IRS News Release

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IRS Takes New Steps on Credit Counseling Groups Following Widespread Abuse

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WASHINGTON — Internal Revenue Service officials today released a report on tax-exempt credit counseling agencies and announced further steps to ensure these organizations comply with the law.

Over the past two years, the IRS has been auditing 63 credit counseling agencies, representing more than half of the revenue in the industry. To date, the audits of 41 organizations, representing more than 40 percent of the revenue in the industry, have been completed. All of the completed audits have resulted in revocation, proposed revocation or other termination of tax-exempt status.

Each year many Americans turn to credit counseling organizations for financial education, advice and assistance. Furthermore, under the Bankruptcy Reform Act of 2005, anyone who files for bankruptcy must first visit one of these agencies.

“Over a period of years, tax-exempt credit counseling became a big business dominated by bad actors,” said IRS Commissioner Mark W. Everson. “Our examinations substantiated that these organizations have not been operating for the public good and don’t deserve tax-exempt status. They have poisoned an entire sector of the charitable community.”

The revocations result from these organizations failing to provide the level of public benefit required to qualify for tax exemption. Many of these agencies offered little or no counseling or education and appeared to be primarily motivated by profit. In many instances, these agencies also served the private interests of related for-profit businesses, officers and directors.

Based on the findings of the examinations, the IRS is taking two additional steps:

- issuing expanded guidance, including legal standards for exemption and factors considered by the IRS in its reviews of these organizations; and

- sending compliance inquiries to each of the remaining 740 known tax-exempt credit counseling agencies not already under audit. Depending on the responses received, additional audits may be undertaken.

“We are taking the unprecedented step of contacting every known organization in the tax-exempt credit counseling world to determine if there are further problems. And we are issuing guidance to assist those smaller organizations who do play it straight and want to continue to stay on the right side of the law." Everson said.

In addition, the IRS has tightened up its review of new applications by credit counseling firms for tax-exempt status. Since 2003, about 100 applications have been reviewed, but only three have been approved.

The IRS focus on tax-exempt credit counseling organizations is part of the tax agency's strategic goal to deter abuse within the tax-exempt sector. Other parts of this strategic initiative involve compliance efforts aimed at excessive compensation paid to individuals associated with some exempt organizations, misuse of conservation and façade easements, tightened rules for down-payment assistance organizations, and the prevention of abusive tax shelters with the accommodation of tax-exempt entities. In addition, the IRS has stepped up efforts to deter and investigate prohibited political intervention by tax-exempt organizations.

Hearings on abuses by tax-exempt organizations have been held by the House Ways and Means and Senate Finance committees and the Senate Permanent Subcommittee on Investigations.

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